In the current instance, this means that as long as CLECs have access to cost-based wholesale facilities, they will always be able to defeat any attempts at collusion between Verizon and the cable companies. Of course, after a grant of forbearance, Verizon would be able to increase its wholesale rates and diminish or eliminate the CLECs' ability to disrupt collusion.

2. Intermodal Competition is Not Price Constrained Competition

The intermodal competition between the two dominant service delivery platforms, wireline and cable, is not played out primarily by means of price competition. Rather, the dynamics between the platforms is far more complex, with each having unique functionalities, strengths, and weaknesses, which are not or only partially shared by the other.

Cable companies typically bundle their voice services with high-speed Internet access or cable TV services, or require the customer to purchase multiple services to obtain a favorable rate for voice services. For example, Comcast – which Verizon states passes about 80% of homes in the Philadelphia MSA[37] – offers the Comcast Unlimited® Special package under its Comcast Digital Voice® services. This package provides subscribers with unlimited local/long distance calling and popular features for $24.95/mo. for 6 months and $39.95 per month thereafter – only for customers who purchase Comcast Cable and/or Comcast High Speed Internet with Digital Voice.[38] The Comcast Unlimited® service states that the price is as low as "$39.95 for customers that subscribe to Comcast Cable ***and*** Comcast High-Speed Internet."[39] Comcast Unlimited® Special and Comcast Unlimited® are the only two Comcast Digital Voice® services available from Comcast's website. In other words, Comcast offerings do not include an affordable basic telephone-only plan. Comcast also offers other packages in Philadelphia – all of which bundle digital cable, high speed Internet, and Comcast Digital Voice for between $99.00 - $159.00/mo.

Cable telephone services may also differ from traditional POTS service in terms of quality of service. For example, the Residential Subscriber Agreement for Comcast's Digital Voice® service describes limitations on emergency services,[40] potential service

---

37 Verizon Philadelphia Petition, at 4.

38 The Terms and Conditions for this package state: "To qualify for offer, service must be ordered via www.comcast.com. Offer only available to customers who subscribe to Comcast Cable Video or Comcast High Speed Internet Service or customers who are purchasing Comcast Digital Voice with a Cable or High Speed Internet package."

39 www.comcast.com/Shop/Buyflow/Default.ashx (emphasis supplied).

40 "Limitations: The Services include 911/Enhanced 911 function ("911/E911") that may differ from the 911 or Enhanced 911 function furnished by other providers. As such, it may have certain

facilities at TELRIC rates in the six MSAs at issue.[43] The use of current special access rates as a proxy for the rates that would result is a very conservative approach because special access rates are likely to increase absent the discipline provided by the availability of UNEs.[44]

Using publically-available demand data, the *QSI Study* focused on the impact of a grant of forbearance in the following three markets:

1. Mass market (measured by residential and single line business switched access lines);
2. Enterprise market (measured by multi-line switched access lines); and
3. High-speed broadband Internet market.[45]

---

43 As pointed out in a July 10, 2007 ex parte letter in WC Docket No. 06-172, "[w]hile Verizon suggests that it would have the incentive to offer commercially reasonable rates and terms, the truth is that Verizon has no such incentive in the absence of its § 251(c)(3) obligations. Even if Verizon chose to offer a post-forbearance contractual replacement for UNE loops, it is unlikely that the terms of such an offering would be comparable to the rates that could be expected to exist in a truly competitive market." This Ex Parte goes on to state that Verizon's commercial pricing "will be no lower than the recurring and nonrecurring charges Verizon originally proposed to charge for copper loop UNEs in rate proceedings before various state commissions." *See* a July 10, 2007 ex parte letter in WC Docket No. 06-172 filed on behalf of Alpheus Communications, L.P.; ATX Communications, Inc.; Cavalier Telephone Corporation; CloseCall America, Inc.; DSLnet Communications, LLC; Eureka Telecom, Inc. d/b/a InfoHighway Communications; ITC^DeltaCom Communications, Inc.; McLeodUSA Telecommunications Services, Inc.; MegaPath, Inc; Mpower Communications Corp.; Norlight Telecommunications, Inc.; Penn Telecom, Inc.; RCN Telecom Services, Inc.; RNK Inc.; segTEL, Inc.; Talk America Holdings, Inc.; TDS Metrocom, LLC; and U.S. Telepacific Corp. d/b/a Telepacific Communications. This assumption is overly conservative because Verizon's proposals in a contested UNE rate proceedings (to be reviewed under the TELRIC standards) is likely to be lower than Verizon's proposal in commercial negotiations regarding its essential bottleneck facilities – commercial negotiations in which Verizon clearly has negotiating advantage and in which there are no prescribed pricing standards, no burden of proof, and no regulatory oversight.

44 *See, e.g., ACN, et al. Opposition*, at 39; *Comments of Time Warner Cable*, WC Docket No. 06-172 (filed Mar. 5, 2007), at 21; *Reply Comments of Paetec Communications, Inc. and US LEC Corp.*, WC Docket No. 06-172 (filed Apr. 18, 2007), at 4; and *Telecom Investors Opposition*, WC Docket No. 06-172 (filed Mar. 5, 2007), at 4. Time Warner Cable explained that the presence of UNEs in the marketplace disciplines the incumbent LEC's special access pricing. *See Time Warner Cable Comments*, at 21. It bears noting that in all six MSAs, Verizon has full pricing flexibility for special access transport, and in two MSAs, Verizon has full pricing flexibility for local channel terminations. It also bears noting that the Verizon-MCI merger condition that prohibits the company from increasing its special access rates will expire in July 2008. *See ACN et al. Opposition* at 38.

45 QSI derived the volume information for these markets by pooling various data sources, including the ILEC and CLEC line count data from the FCC's most recent Local Competition Report, ARMIS 43-08 Reports, the FCC Report High-Speed Services for Internet Access, publicly-available wire center line count data from the FCC's high-cost fund support calculations, MSA-level population and household counts from the Census Bureau, and county-level population and

QSI collected Verizon's current UNE and special access recurring rates for key network elements, *i.e.*, local loops and transport. QSI then calculated the difference between UNE-based and special-access based rates for various network element combinations under which end-user markets in the study are typically served. The charts depicting the difference between Verizon's recurring UNE and special access rates by MSA are presented in Section II(c) above.[46]

The calculated difference between UNE and special access rates constitutes the increase in wholesale cost faced by CLECs if forbearance is granted – the increase that CLECs may partially absorb (thus decreasing their margins and potentially exiting the market) or/and partially pass through to retail customers (thus weakening the retail price discipline that UNE-based CLECs provide to retail markets)[47] The end result is that the overall level of retail prices will go up following the increase in CLECs' wholesale costs.[48] The *QSI Study* reasonably assumes that the price increases in retail markets will be smaller than the price increases in the wholesale market, and will be accompanied by decreases in demand.

---

personal income data from the Regional Economic Information System of the Bureau of Economic Analysis.

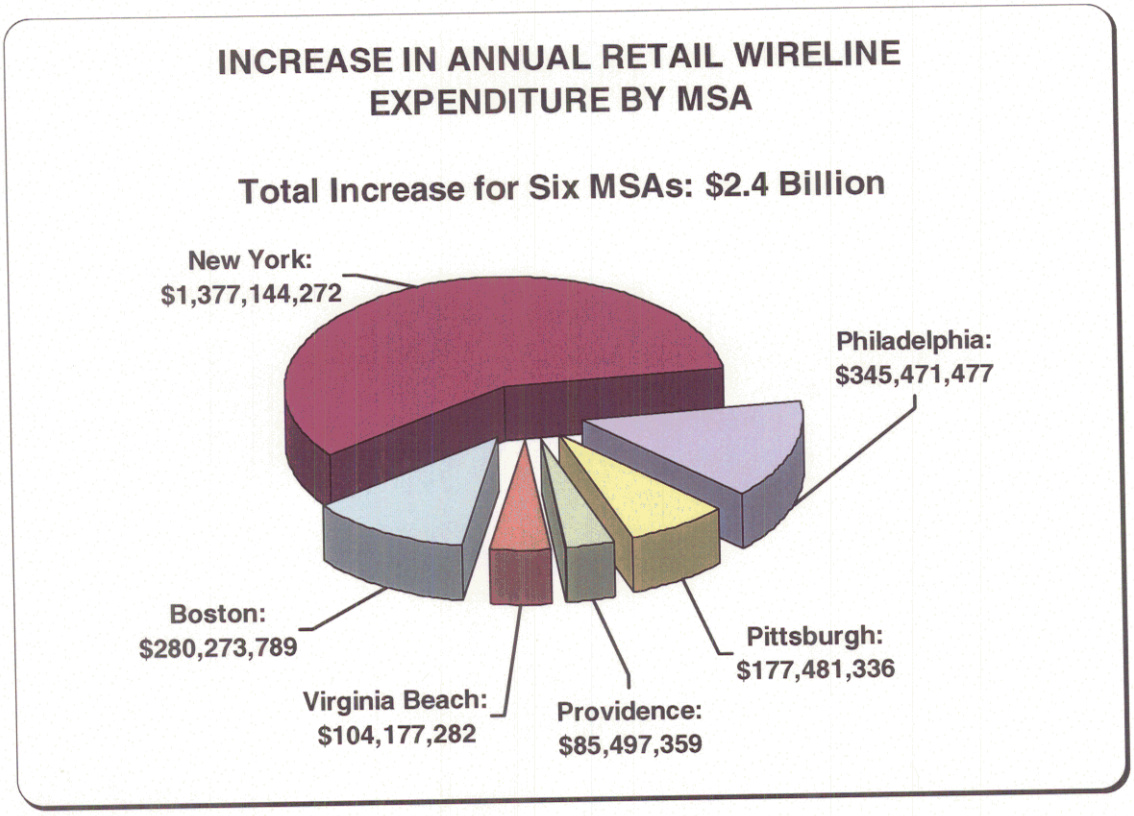
46 When utilizing the calculated differences described above in its impact calculations, QSI accounted for the fact that Verizon is not required to provide unbundled access to high capacity loop and transport UNEs in certain wire centers due to the FCC's *TRRO*.

47 For further discussion of the price discipline provided by CLECs, *See Opposition of Cavalier Telephone Subsidiaries*, WC Docket No. 06-172 (filed Mar. 5, 2007), at 12-13.

48 The specific channels through which the overall market price increase would occur may include an increase in rates for non-regulated or de-regulated services. As noted by NASUCA , granting Verizon's Petitions may allow Verizon to increase its Federal Subscriber Line Charge. *Comments of the National Association of State Utility Consumer Advocates, the Pennsylvania Office of Consumer Advocate, the Public Utility Law Project of New York, Inc., the Massachusetts Office of Attorney General, the Virginia Office of Attorney General, the Maryland Office of People's Counsel, the New Jersey Division of Rate Counsel, the New Hampshire Office of Consumer Advocate and the Connecticut Office of Consumer Counsel*, WC Docket No. 06-172 (filed Mar. 5, 2007), at 23. Further, more services may become deregulated in the near future: For example, Cavalier noted that Verizon has applied for deregulation of virtually all retail services in Virginia. *Opposition of Cavalier Telephone Subsidiaries*, WC Docket No. 06-172 (filed Mar. 5, 2007), at 11. NASUCA's comments inform that Verizon applied in Maryland to reclassify all of its intrastate bundled services as "competitive" within the Verizon Maryland Price Cap plan. *Comments of the National Association of State Utility Consumer Advocates, et al.*, WC Docket No. 06-172 (filed Mar. 5, 2007), at n. 54. NASUCA noted further that "[e]ven in the presence of regulations, Verizon has shown a tendency toward rate ***increases***, rather than rate decreases, to respond to 'competition' in the market for its bundled services," pointing to Verizon's recent tariff transmittal to increase rates for bundles in Maryland, Massachusetts, New Jersey and Pennsylvania. *Id.*

B. Results of *QSI Study*

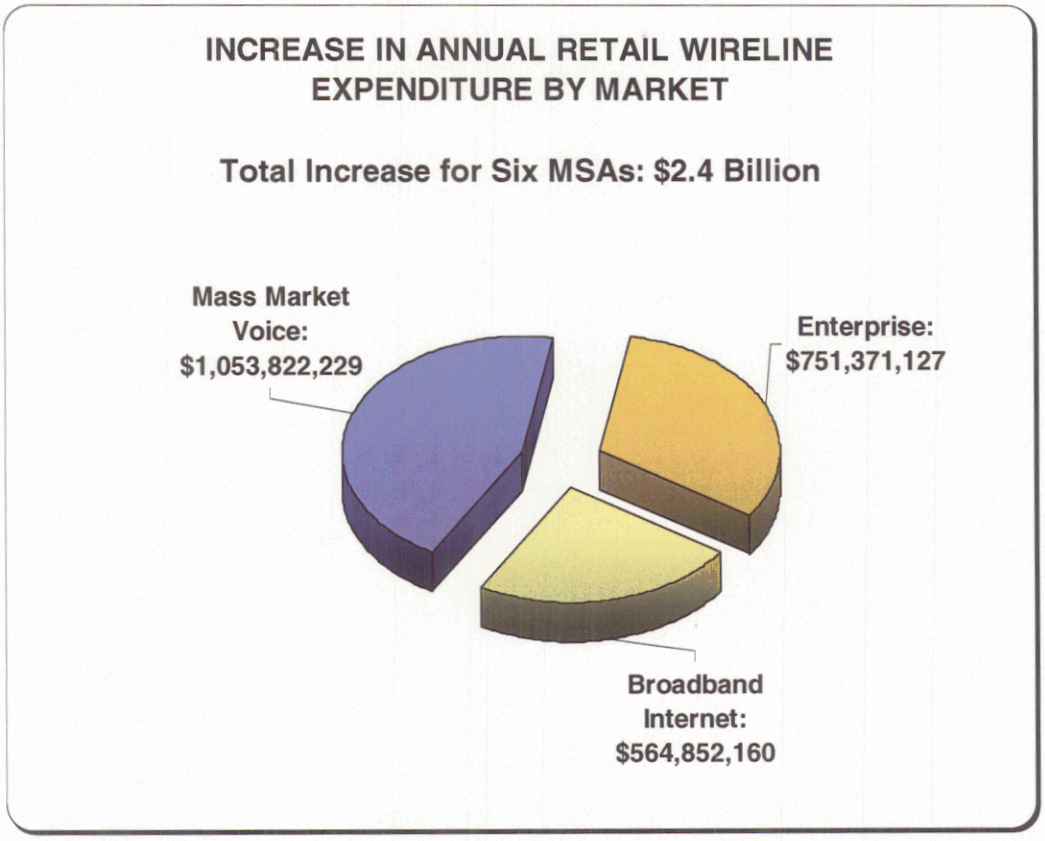
QSI calculated the impact of granting Verizon's Petitions as an increase in retail telecommunications expenditures associated with mass market voice, enterprise and high speed broadband Internet markets.[49] This impact estimate is ***$2.4 billion annually for the six MSAs at issue***. The chart below provides a breakdown of this estimate by MSA.



As seen from the above chart, the New York MSA accounts for over half of the total $2.4 billion annual impact, and the smallest absolute impact is expected in the Providence MSA – the result driven mainly by the relative size of the MSAs.

The following chart breaks down the total estimated annual impact of $2.4 billion into market segments – mass market voice, enterprise, and broadband Internet.

[49] As noted above, the *QSI Study* reasonably assumes that retail demand volumes would go down in response to market price increases. This reduction in market demand causes a societal welfare loss known in economics as *a deadweight loss* to society. QSI's estimated impact did not include this effect.



As seen from the above chart, the most significant portion of the expected annual impact will occur in the mass market (at $1.1 billion). The broadband Internet market can also be considered a mass market because it is composed predominantly of residential customers. Thus, of the total $2.4 billion annual impact, the ***residential Voice and Internet markets account for a $1.6 billion increase in annual retail expenditures***, or, equivalently, ***$114 per household*** on average across the six MSAs.

The following table places this estimate in context by comparing the projected increase in residential household expenditures to the current residential household wireline expenditures.[50]

[50] Current household wireline expenditures are based on the 2005 data from the FCC's "Reference Book of Rates, Telephone Indices, and Household Expenditures for Telephone Services" (2007), Tab 2.6 and Bureau of Labor Statistics 2005 Consumer Expenditure Survey.

Relative Increase in Residential Annual Retail Expenditures

MSA	Residential Voice and Broadband Internet	
	Annual Increase per Household	% Residential Wireline Expenditure
Boston	$ 92	20%
New York	$ 132	28%
Philadelphia	$ 87	19%
Pittsburgh	$ 120	26%
Providence	$ 96	20%
Virginia Beach	$ 84	17%
Combined 6 MSAs	**$ 114**	**24%**

Finally, the following table provides an additional context for the total impact across all markets. It lists the total impact as a percentage of total wireline end user revenue in each MSA.

Relative Increase in Total Annual Retail Expenditures

MSA	Total Voice and Broadband as % Total Retail Wireline Revenues
Boston	11%
New York	13%
Philadelphia	11%
Pittsburgh	15%
Providence	11%
Virginia Beach	12%
Combined 6 MSAs	**13%**

V. CONCLUSION

Based on our analysis, we estimate that Verizon's Petitions – if granted – would result in a $2.4 billion increase in retail telecommunications expenditures in the Boston, New York, Philadelphia, Pittsburgh, Providence, and Virginia Beach MSAs annually, including a 24% increase in residential household wireline bills (which equals $114 per household annually). This increase would result from the qualitative change in retail telecommunications markets in these MSAs, where the pricing discipline provided by CLECs who currently obtain network elements at TELRIC rates would be diminished or eliminated.